

**WAYNE COUNTY
SCHOOL DISTRICT**

AUDITED FINANCIAL STATEMENTS

for the year ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Wayne County School District
Monticello, Kentucky 42633

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Wayne County School District as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the managements' discussion and analysis and budgetary comparison information on pages 3 through 7 and 37 and 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 3, 2014 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Barry D. Daulton, CPA

Somerset, Kentucky
November 3, 2014

Wayne County Public School District-Monticello, Kentucky
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2014

As management of the Wayne County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

Financial Highlights

- The beginning cash balance for the District was \$556,493. The year ended with a balance of \$2,173,872. The year end balance is \$1,617,379 more than the 2012-2013 year- end balance.
- The General Fund had \$24,824,530 in revenue, which primarily consisted of the state program (SEEK), property, utilities and motor vehicle taxes. Excluding interfund transfers and other financing sources, there was \$25,050,775 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt reduction on bonds was \$1,936,373 for the current fiscal year. The District's outstanding debt, including KISTA, is \$ 19,887,273 (principal and interest combined) at the end of fiscal year 2014.
- The District experienced a significant event during the 2013-2014 fiscal year in the form of a merge with Monticello Independent Schools. The merge required the District to acquire the former Monticello Independent School's assets, liabilities, student body and a significant number of staff.
- During the 2013-2014 fiscal year, the Board purchased the remaining Ina Gregory property. This property will provide ample opportunities for the District's future property needs.
- Total enrollment for 2013-2014 for grades K-12 was 3,317, an 809 student increase from 2012-2013. The overall District attendance rate for 2013-2014 was 94.45, an increase from 2012-2013 of 94.29.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are food service operations and childcare. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 and 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 33 of this report.

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$14,049,878 as of June 30, 2014. This reflects an increase of \$4,506,121 from 2012-2013.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the period ending June 30, 2014

Current Assets	3,040,005
Noncurrent Assets	<u>31,784,998</u>
Total Assets	34,825,003
Current Liabilities	651,750
Noncurrent Liabilities	<u>20,123,375</u>
Total Liabilities	16,330,548
Net Position	
Investment in capital assets (net of debt)	11,897,725
Restricted Fund Balance	353,230
Unrestricted Fund Balance	<u>1,798,923</u>
Total Net Position	14,049,878

Comments on Budget Comparisons

- The District's total general revenues for the fiscal year ended June 30, 2014, net of Interfund transfers, were \$24,824,530.
- General Fund budget compared to actual revenue varied slightly from line item to line item with the exception of revenue code 3900 (on-behalf payments made by the state for employee benefits). On-behalf payments are not included in the budget. The actual revenue received was \$5,909,411 more than budgeted.
- The total cost of all programs and services was \$24,898,476 net of debt service.
- General Fund budget expenditures to actual varied overall due to recording on-behalf payments.

General Fund Revenue/Expenditures

The majority of the total General Fund (Fund 1) revenue was derived from state revenue (80.1%). Local funding accounted for (18.2%) of the revenue.

The greatest amount of revenue (55.5%) was expended for instruction. Other significant expenditures were student transportation (10.4%), plant operation and management (10.0%), instructional staff support which includes school libraries and district-wide instructional support staff (6.1%), school administrative support (6.0%), and student support services which includes health services, attendance services and guidance counseling (6.3%).

Special Revenue Fund Revenue/Expenditures

The majority (66.5%) of the Special Revenue's (Fund 2) revenue was derived from federal sources with state revenue making up (29.6%). The largest expenditure for the fund was for instruction, which was (74.1%) of the fund's total expenditures. Instructional staff support services was (16.7%) of the total expenditures.

Capital Outlay Fund and Facilities Support Program of Kentucky Revenue/Expenditures

The Capital Outlay Fund's (Fund 310) revenue is received from the state funding program (SEEK). The FSPK Fund (Fund 320) receives revenue from both state funding and local taxes. During this year the majority of these funds were transferred to the debt service fund for paying on bonds sold in previous years for new and renovated facilities. This year the state allowed the district to use a portion of Capital Outlay funds for approved operation expenses that would have been funded through General Fund.

Construction Fund Revenue/Expenditures

The Construction Fund (Fund 360) is used for new buildings and renovations. The remaining expenses, funded through general fund, for the Softball Lighting project was expended during the fiscal year. In addition, the District had a bond sale and purchased the Ina Gregory property.

Debt Service Fund Revenue/Expenditures

The Debt Service Fund (Fund 400) is used for paying debt service on bonds sold for new and renovated facilities. The fund receives a majority of its revenue from transfers from other funds primarily the Capital Outlay and FSPK Funds.

Food Service Fund Revenue/Expenditures

The School Food Services Fund (Fund 51) is an enterprise fund, which receives revenue from federal (82.9%), state (12.7%) and local (4.3%) sources. Expenditures for this fund are for food service staff, food, supplies and equipment.

Childcare Tuition Fund Revenue/Expenditures

The Childcare Tuition Fund (Fund 52) is an enterprise fund that receives its revenue from daycare fees. The funds expenditures are for day care staff, supplies and equipment.

Budgetary Implications

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$600,000 in contingency (2.7%). The cash balance for beginning the fiscal year is \$2,173,872.

Questions regarding this report should be directed to Wayne Roberts, Superintendent at (606) 348-8484 or to Lisa Pyles, Finance Officer at (606)348-8484 or by mail at 1025 South Main Street, Monticello, Kentucky 42633.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION - DISTRICT WIDE
June 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 1,405,638	\$ 512,939	\$ 1,918,577
Investments	293,942	-	293,942
Accounts receivable	780,624	2,691	783,315
Inventory	-	44,171	44,171
Non-depreciable capital assets			
Land	2,140,310	-	2,140,310
Depreciable capital assets			
Land improvements	927,719	-	927,719
Buildings and improvements	37,175,440	2,164,517	39,339,957
Furniture and equipment	4,561,186	371,607	4,932,793
Less accumulated depreciation	(14,640,262)	(915,519)	(15,555,781)
TOTAL ASSETS	\$ 32,644,597	\$ 2,180,406	\$ 34,825,003
LIABILITIES			
Accounts payable	256,497	8,942	265,439
Accrued payroll & related expenses	(3,001)	-	(3,001)
Deferred revenues	389,312	-	389,312
Long-term liabilities			
Due or payable within one year			
Sick leave payable	94,094	-	94,094
Interest payable	142,008	-	142,008
Bonds payable & capital leases	2,082,511	-	2,082,511
Due or payable after one year			
Bonds payable & capital leases	17,804,762	-	17,804,762
TOTAL LIABILITIES	20,766,183	8,942	20,775,125
NET POSITION			
Invested in capital assets, net of debt	10,277,120	1,620,605	11,897,725
Restricted for:			
Inventories	-	44,171	44,171
Sick leave	94,094	-	94,094
Encumbrances	-	-	-
Debt service	155,500	-	155,500
Capital Projects	59,465	-	59,465
Unrestricted	1,292,235	506,688	1,798,923
TOTAL NET POSITION	11,878,414	2,171,464	14,049,878
TOTAL LIABILITIES AND NET POSITION	\$ 32,644,597	\$ 2,180,406	\$ 34,825,003

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

FUNCTION/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		TOTAL
				GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	
Governmental activities						
Instructional	\$ 16,336,208	\$ -	\$ 3,250,638	\$ (13,085,570)		\$ (13,085,570)
Student support services	1,637,545			(1,637,545)		(1,637,545)
Staff support services	2,312,320			(2,312,320)		(2,312,320)
District administration	743,476			(743,476)		(743,476)
School administration	1,521,985			(1,521,985)		(1,521,985)
Business support services	344,347			(344,347)		(344,347)
Plant operation and maintenance	2,531,660			(2,531,660)		(2,531,660)
Student transportation	2,475,876			(2,475,876)		(2,475,876)
Food service operations	750			(750)		(750)
Day care operations	23,317			(23,317)		(23,317)
Community service	308,545			(308,545)		(308,545)
Adult education	29,799			(29,799)		(29,799)
Facility acquisition/construction	432,417			(432,417)		(432,417)
Interest on debt	826,025			(826,025)		(826,025)
Total governmental activities	29,524,270		3,250,638	(26,273,632)		(26,273,632)
Business-type activities						
Food service	2,405,461	110,305	2,480,160		185,004	185,004
Day care	68,554	45,260	23,294		-	-
Total business-type activities	2,474,015	155,565	2,503,454	-	185,004	185,004
Total school district	\$ 31,998,285	\$ 155,565	\$ 5,754,092	\$ (26,273,632)	185,004	(26,088,628)
General revenues:						
Taxes				4,957,322		4,957,322
State aid - formula grants				23,651,181		23,651,181
Investment earnings				25,582	1,846	27,428
Miscellaneous				159,266	378	159,644
Operating Transfers In				1,634,225		1,634,225
Operating Transfers Out				(1,569,033)	(65,192)	(1,634,225)
Special items:						
Proceeds from sale of bonds				432,000		432,000
Gain / loss on sale of assets				(3,447)		(3,447)
Gain on merger				1,011,841	358,780	1,370,621
Total general and special revenues				30,298,937	295,812	30,594,749
Change in net position				4,025,305	480,816	4,506,121
Net position - July 1, 2013				7,853,109	1,690,648	9,543,757
Net position - June 30, 2014				\$ 11,878,414	\$ 2,171,464	\$ 14,049,878

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

	GENERAL FUND	SPECIAL REVENUE	OTHER GOVERNMENTAL	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 1,567,048	\$ (224,441)	\$ 63,031	\$ 1,405,638
Investments	-	-	293,942	293,942
Accounts receivable	149,001	631,623	-	780,624
TOTAL ASSETS	\$ 1,716,049	\$ 407,182	\$ 356,973	\$ 2,480,204
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 238,627	\$ 17,870	\$ 142,008	398,505
Accrued payroll & related expenses	(3,001)	-	-	(3,001)
Deferred revenues		389,312	-	389,312
TOTAL LIABILITIES	235,626	407,182	142,008	784,816
FUND BALANCE				
Restricted for Debit Service	-	-	155,500	155,500
Restricted for Capital Projects	-	-	59,465	59,465
Restricted for Sick Leave	94,094	-	-	94,094
Assigned for Encumbrances	-	-	-	-
Unassigned	1,386,329	-	-	1,386,329
TOTAL FUND BALANCES	1,480,423	-	214,965	1,695,388
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,716,049	\$ 407,182	\$ 356,973	\$ 2,480,204

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE DISTRICT-WIDE STATEMENTS OF NET POSITION
June 30, 2014**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:

Total governmental fund balance		\$ 1,695,388
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	44,804,655	
Accumulated depreciation	<u>(14,640,262)</u>	30,164,393
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long term liabilities at year end consist of:		
Accrued sick leave	(94,094)	
Bonds and capital leases payable	<u>(19,887,273)</u>	<u>(19,981,367)</u>
Total net position - governmental		<u>\$ 11,878,414</u>

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2014

	GENERAL FUND	SPECIAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues				
Taxes	\$ 4,525,097	\$ -	\$ 432,225	\$ 4,957,322
Earnings on investments	11,171	4	14,407	25,582
State sources	20,104,288	1,376,529	2,170,364	23,651,181
Federal sources	161,818	3,088,820	-	3,250,638
Other sources	22,156	137,110	-	159,266
Total revenues	24,824,530	4,602,463	2,616,996	32,043,989
Expenditures				
Instructional	14,000,841	3,441,771	-	17,442,612
Student support services	1,585,421	54,062	-	1,639,483
Staff support services	1,540,281	774,539	-	2,314,820
District administration	681,670	68,271	-	749,941
School administration	1,521,745	240	-	1,521,985
Business support services	344,347	-	-	344,347
Plant operation/maintenance	2,520,832	20,137	-	2,540,969
Student transportation	2,625,928	-	-	2,625,928
Food service operation	-	750	-	750
Day care operations	23,317	-	-	23,317
Community service	54,094	255,956	-	310,050
Adult education operations	-	29,799	-	29,799
Facility acquisition/construction	-	-	432,417	432,417
Debt service principal	131,988	-	1,804,385	1,936,373
Debt service interest	20,311	-	805,714	826,025
Total expenditures	25,050,775	4,645,525	3,042,516	32,738,816
Excess (deficit) of revenues over expenditures	(226,245)	(43,062)	(425,520)	(694,827)
Other financing sources (uses):				
Proceeds from sale of bonds	-	-	432,000	432,000
Gain/Loss on Sale of Asset	(3,447)	-	-	(3,447)
Gain on Merger	1,011,841	-	-	1,011,841
Operating transfers in	261,859	43,062	1,329,304	1,634,225
Operating transfers out	(175,208)	-	(1,393,825)	(1,569,033)
Total other financing sources (uses)	1,095,045	43,062	367,479	1,505,586
Net change in fund balances	868,800	-	(58,041)	810,759
Fund balances July 1, 2013	611,623	-	273,006	884,629
Fund balances June 30, 2014	\$ 1,480,423	\$ -	\$ 214,965	\$ 1,695,388

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

June 30, 2014

Amounts reported for governmental activities in the statement of net position are different because:

Net changes - governmental funds:	\$ 810,759
Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.	7,221,163
Bond proceeds are reported as financing sources in governmental funds and thus contributes to the change in fund balance. In the Statement of Net Assets; however, issuing debt increases long-term liabilities and does the affect the Statement of Activities.	
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Principal paid	1,936,373
Bonds issued	(432,000)
In the statement of activities the net gain on the sale/disposal of assets is reported whereas in the governmental funds the proceeds from the sale increase financial resources. Thus the change in net assets differs from the change in fund balances by the cost of the asset sold / acquired.	(5,274,888)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recongnized in the statement of activities when they are incurred:	
Accrued expenses and liabilities:	(236,102)
Changes in net position - governmental funds	<u>\$ 4,025,305</u>

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2014

	<u>CAPITAL OUTLAY</u>	<u>DEBT SERVICE</u>	<u>CONSTRUCTION FUND</u>	<u>TOTAL</u>
ASSETS				
Cash and cash equivalents	\$ 59,465	\$ 3,566	\$ -	\$ 63,031
Accounts Receivable	-	-	-	-
Investments	-	293,942	-	293,942
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 59,465</u>	<u>\$ 297,508</u>	<u>\$ -</u>	<u>\$ 356,973</u>
LIABILITIES				
Accounts payable	\$ -	\$ 142,008	\$ -	\$ 142,008
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	-	142,008	-	142,008
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted for capital projects	59,465	-	-	59,465
Restricted for debt service	-	155,500	-	155,500
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCE	<u>59,465</u>	<u>155,500</u>	<u>-</u>	<u>214,965</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 59,465</u>	<u>\$ 297,508</u>	<u>\$ -</u>	<u>\$ 356,973</u>

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2014

	<u>CAPITAL OUTLAY</u>	<u>BUILDING FUND</u>	<u>DEBT SERVICE</u>	<u>CONSTRUCTION FUND</u>	<u>TOTAL NON-MAJOR GOV'T FUNDS</u>
REVENUES					
Taxes	\$ -	\$ 432,225	\$ -	\$ -	\$ 432,225
Earnings on investment	-	-	14,407	-	\$ 14,407
State sources	301,368	660,232	1,208,764	-	\$ 2,170,364
Total revenues	301,368	1,092,457	1,223,171	-	2,616,996
EXPENDITURES					
Facility acquisition and construction	-	-	-	432,417	432,417
Plant operation/maintenance	-	-	-	-	-
Debt service principal	-	-	1,804,385	-	1,804,385
Debt service interest	-	-	805,714	-	805,714
Total expenditures	-	-	2,610,099	432,417	3,042,516
Excess (deficit) of revenues over expenditures	301,368	1,092,457	(1,386,928)	(432,417)	(425,520)
Other financing sources (uses):					
Proceeds from sale of bonds	-	-	-	432,000	432,000
Operating transfers out	(301,368)	(1,092,457)	-	-	(1,393,825)
Operating transfers in	-	-	1,328,887	417	1,329,304
Total other financing sources (uses)	(301,368)	(1,092,457)	1,328,887	432,417	367,479
Net change in fund balance	-	-	(58,041)	-	(58,041)
Fund balance July 1, 2013	59,465	-	213,541	-	273,006
Fund balance June 30, 2014	\$ 59,465	\$ -	\$ 155,500	\$ -	\$ 214,965

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2014

	<u>FOOD SERVICE</u>	<u>OTHER ENTERPRISE FUNDS</u>	<u>TOTAL</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 515,466	\$ (2,527)	\$ 512,939
Accounts receivable	164	2,527	2,691
Inventories for consumption	44,171		44,171
	<u>559,801</u>		<u>559,801</u>
Total current assets	559,801		559,801
Noncurrent assets			
Buildings and improvements	2,164,517	-	2,164,517
Furniture and equipment	371,607	-	371,607
Accumulated depreciation	(915,519)	-	(915,519)
	<u>1,620,605</u>	<u>-</u>	<u>1,620,605</u>
Total noncurrent assets	1,620,605	-	1,620,605
TOTAL ASSETS	<u><u>\$ 2,180,406</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,180,406</u></u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 8,942	\$ -	\$ 8,942
Total current liabilities	8,942	-	8,942
Total noncurrent liabilities	-	-	-
	<u>8,942</u>	<u>-</u>	<u>8,942</u>
TOTAL LIABILITIES	<u><u>8,942</u></u>	<u><u>-</u></u>	<u><u>8,942</u></u>
NET POSITION			
Invested in assets, net of debt	1,620,605	-	1,620,605
Reserved for inventories	44,171	-	44,171
Unrestricted	506,688	-	506,688
	<u>2,171,464</u>	<u>-</u>	<u>2,171,464</u>
TOTAL NET POSITION	<u><u>2,171,464</u></u>	<u><u>-</u></u>	<u><u>2,171,464</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 2,180,406</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,180,406</u></u>

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
PROPRIETARY FUNDS
for the year ended June 30, 2014

	FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
OPERATING REVENUES			
Lunchroom sales	\$ 110,305	\$ -	\$ 110,305
Other operating revenues	378	45,260	45,638
Total operating revenues	110,683	45,260	155,943
OPERATING EXPENSES			
Salaries and benefits	1,044,219	90,375	1,134,594
Contract services	39,489	412	39,901
Materials and supplies	1,213,950	(22,258)	1,191,692
Depreciation	67,916	-	67,916
Other operating expenses	39,887	25	39,912
Total operating expenses	2,405,461	68,554	2,474,015
Operating income (loss)	(2,294,778)	(23,294)	(2,318,072)
NONOPERATING REVENUES (EXPENSES)			
Federal grants	2,006,943	-	2,006,943
State grants	330,177	23,294	353,471
Donated commodities	143,040	-	143,040
Gain/Loss on Sale of Asset	-	-	-
Gain on Merger	358,780	-	358,780
Operating Transfers Out	(65,192)	-	(65,192)
Interest income	1,846	-	1,846
Total nonoperating revenues	2,775,594	23,294	2,798,888
Change in net position	480,816	-	480,816
Net position July 1, 2013	1,690,648	-	1,690,648
Net position June 30, 2014	\$ 2,171,464	\$ -	\$ 2,171,464

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
for the year ended June 30, 2014

Cash flows from operating activities:

Cash received from lunchroom sales	\$ 110,305
Cash received from other activities	214,341
Cash payments to employees for services	(1,134,594)
Cash payments to suppliers	(1,191,692)
Cash payments for other operating expenses	<u>(79,813)</u>

Net cash provided by operating activities	(2,081,453)
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Cash flows from noncapital financing activities:

Nonoperating grants received	<u>2,360,414</u>
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Net cash provided by noncapital financing activities	2,360,414
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Cash flows from investing activities:

Interest income	<u>1,846</u>
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Net cash provided by investing activities	<u>1,846</u>
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Net increase in cash equivalents	280,807
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Cash and cash equivalents July 1, 2013	<u>232,132</u>
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Cash and cash equivalents June 30, 2014	<u><u>\$ 512,939</u></u>
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**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities:**

Operating income	\$ (2,318,072)
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**Effect of Increases and Decreases in Current
Assets and Liabilities:**

Depreciation	67,916
Increase in inventory	(8,103)
Decrease in receivables	90,667
Increase in payables	<u>86,139</u>

Net cash provided by operating activities	<u><u>\$ (2,081,453)</u></u>
---	------------------------------

Schedule of non-cash transactions:

Gain on merger	358,780
Gain / loss on sale of asset	-
Donated commodities	<u>143,040</u>
	<u><u>\$ 501,820</u></u>

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
June 30, 2014

	Private Purpose Trust Funds
<hr/>	
ASSETS AND RESOURCES	
Cash and cash equivalents	\$ 255,295
Accounts receivable	6,397
TOTAL ASSETS AND RESOURCES	<hr/> <u>261,692</u>
LIABILITIES	
Accounts payable	6,250
Total liabilities	<hr/> <u>6,250</u>
NET POSITION HELD IN TRUST	<hr/> <u>\$ 255,442</u>

The accompanying notes are an integral part of these statements.

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENSES AND CHANGES
IN NET POSITION - FIDUCIARY FUNDS
June 30, 2014

	Private Purpose Trust Funds
REVENUES	
Revenues from Student Activities	736,799
Total Revenues	<u>736,799</u>
EXPENSES	
Student Activities	<u>642,392</u>
Changes in Net Position	94,407
Net Position July 1, 2013	<u>161,035</u>
Net Position June 30, 2014	<u><u>\$ 255,442</u></u>

The accompanying notes are an integral part of these statements.

**WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Wayne County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Wayne County School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as Board members are elected by the public and have decision-making authority, the power to designate management and the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Wayne County School District. The financial statements presented herein do not include funds of groups and organizations which, although associated with the school system, have not originated within the Board itself such as booster organizations, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

The accounting policies of the Wayne County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts and generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB).

District-Wide and Fund Financial Statements

The statement of net assets and the statement of activities are district-wide financial statements. They report information on all of the District's nonfiduciary activities with interfund activities removed. Governmental activities include programs supported primarily by taxes, state funding and allocations and other intergovernmental revenues.

Fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary and fiduciary. Because the resources in the fiduciary funds cannot be used for District operations, they are not included in the district-wide statements.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description along with the restrictions associated with each class of funds are as follows:

I. Governmental Fund Types

- A. The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use.
- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Federal Financial Assistance included in this report.
- C. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the Kentucky School Facilities Construction Commission's funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, *continued*
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

III. Proprietary Funds (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts for in-kind contribution of commodities from the USDA are recorded only in the proprietary Statement of Revenues, Expenses, and Changes in Fund Balance.

IV. Fiduciary Fund Type

The Activity Fund consists of Agency funds and accounts for activities of student groups and other types of activities requiring clearing accounts. With the exception of Cardinal Bank, these funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. The Cardinal Bank operates a school bank for the benefit of students and the nature of its operations are not conducive to some of the requirements of the Uniform Program of Accounting for School Activity Funds.

V. Property Taxes

The District's property taxes are levied each October on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Property taxes attach as an enforceable lien on the property at May 31. Tax rates assessed were 41.6 and 41.6 cents, respectively, per one hundred dollars of assessed value.

Property taxes collected are deposited into the General Fund, then transferred and recorded as revenues in the fund for which they were levied.

Utilities Taxes

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishing, within the county, of telephone, cable television, electricity and water services.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP. During the budgetary process, revenues are projected in cash amounts to be received and expenditures are projected in cash amounts to be paid. Under GAAP, revenues and expenditures are recorded when susceptible to accrual.

Once the budget is approved, it can be amended. Amendments aggregating more than \$50,000 are presented to the Board for their approval at their regular meetings. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary and fiduciary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased, with the exception of the Proprietary Funds which record inventory using the accrual basis of accounting. Food service fund inventories are stated at cost.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

Investments

Investments are stated at fair value at the balance sheet date. The District has investments in Fixed Income Money Market Funds, which are restricted for repayment of a QZAB upon bond maturity and may not be used for any other purpose.

Encumbrances

Encumbrances are reported as a reservation of the fund balance. They are not reported as disbursements until paid.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

The current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is recorded as a long-term liability.

Fund Balance Reserves

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2014 the District had \$155,500 restricted as debt service in the Debt Service Fund, \$94,094 as restricted for sick leave and \$59,465 as restricted for capital projects in the Capital Outlay Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had no committed fund balances at June 30, 2014.

Assigned fund balances are those amounts that are considered by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2014 was \$0.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The District had \$1,386,329 in Unassigned fund balance at June 30, 2014.

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On-Behalf Payments

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2014 was \$6,595,076. These payments were recorded as follows:

General Fund	\$5,052,425
Debt Service	1,208,764
Food Service Fund	310,593
Day Care Operations Fund	<u>23,294</u>
Total	<u>\$6,595,076</u>

NOTE B - CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the District's cash and cash equivalents was \$3,687,479.

Carrying amounts do not reflect deposits in transit or outstanding checks. Of the total cash balance, \$500,000 was covered by Federal Depository Insurance, with the remainder covered by collateral held by the pledging banks' trust departments in the District's name. At June 30, 2014 all deposits were fully collateralized. Cash and cash equivalents at June 30, 2014 exclusive of activity and debt service funds, consisted of the following (after deposits in transit and outstanding checks):

Governmental funds	\$ 1,405,638
Proprietary funds	\$ 512,939

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE C - BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Wayne County School District and the Kentucky School Facilities Construction Commission.

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Wayne County School District Finance Corporation and the Kentucky School Facilities Construction Commission to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table on the following page sets forth the amount to be paid by the district and the Commission for each year until maturity of all bond issues.

At June 30, 2014 total indebtedness, including both principal and interest, amounted to \$23,424,717. This is detailed below and on the following page.

Capital Lease Payable

Presented below is the schedule of lease payments (principal and interest) due by the District to KISTA for purchase of transportation vehicles:

Year ended June 30

2015	146,000
2016	119,120
2017	85,766
2018	50,171
2019	50,120
2020	41,718
2021	<u>41,586</u>
	<u>\$ 534,481</u>

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2014

The original amounts of issue, issue dates and interest rates are summarized below:

<u>Issue</u>	<u>Amount</u>	<u>Interest Rate</u>
2003C	830,000	3.4
2005 refunded	1,845,000	4.0
2007	2,740,000	.75 - 4.0
2009	1,265,000	4.0
2011	2,377,000	1.5-3.5
2012	7,400,000	.700 - 4.0
2013	445,000	2.4 - 3.0
2006 MIS	4,130,000	3.65-4.25
2006B MIS	365,000	4.125
2008 MIS	1,800,000	2.3-3.7
2011 MIS	440,000	2.0-4.5

DEBT SERVICE AMORTIZATION

<u>Year Ending June 30</u>	<u>District</u>		<u>KSFCC</u>		<u>Annual Totals</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	1,111,745	236,632	841,029	303,727	2,493,133
2016	1,146,785	201,306	862,989	277,426	2,488,506
2017	1,186,282	167,713	885,492	255,646	2,495,133
2018	1,165,260	137,212	867,514	238,204	2,408,190
2019	612,451	105,261	887,323	218,538	1,823,573
2020	532,416	89,779	814,358	195,335	1,631,888
2021	394,975	76,329	827,798	174,601	1,473,703
2022	395,973	64,002	850,800	136,248	1,447,023
2023	406,192	50,795	873,581	130,184	1,460,752
2024	402,866	36,297	898,134	106,062	1,443,359
2025	271,679	23,781	922,321	81,121	1,298,902
2026	281,448	12,666	916,552	55,573	1,266,239
2027	10,636	1,151	216,364	34,757	262,908
2028	1,813	711	160,187	26,811	189,522
2029	5,769	630	166,231	20,885	193,515
2030	4,680	370	172,320	14,738	192,108
2031	3,540	159	178,460	8,366	190,525
2032	-	-	129,000	2,257	131,257
Totals	<u>\$ 7,934,510</u>	<u>\$ 1,204,794</u>	<u>\$ 11,470,453</u>	<u>\$ 2,280,479</u>	<u>22,890,236</u>

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE D - RETIREMENT PLANS

Pension Plan

The Wayne County School System contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort KY 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding Policy - Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions of 14.605%.

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the members must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employee Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

Funding Policy – In order to fund the post-retirement healthcare benefit, four and one half percent (4.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarter percent (.75%) from state appropriation and one and one half percent (1.50%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Wayne County School System's total payroll for the year was \$18,348,622. The payroll for employees covered under KTRS was \$13,590,903. For the year ended June 30, 2014 the Commonwealth contributed \$1,643,206 to KTRS for the benefit of participating employees. The School district's contributions to KTRS for the year ending June 30, 2014 were \$167,601, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employees' retirement system. Funding for the Plan is provided through payroll withholdings of 5.00% if they were members prior to July 1, 2008, 6.00% if they became members after July 1, 2008 and a District contribution of 18.9% of the employees' total compensation subject to contribution. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Historical trend information showing KTRS and CERS progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2014 comprehensive annual financial reports. As the Board is only one of several employers participating in the Plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the Plan assets.

NOTE E - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantors' review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE F - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated, including worker's compensation insurance.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE G - LUNCHROOM ACCOUNT/COMMODITIES

The Lunchroom Account keeps a current monthly inventory in the Food Service Director's office at the Wayne County Board of Education. The Food Service Director has filed timely all required reports and requests for reimbursement.

NOTE H - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. To obtain insurance for workers compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage.

Contributions to the Workers Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term.

The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

NOTE I - DEFICIT OPERATING/FUND BALANCES

There are currently no funds that have a deficit fund balance; however, the following fund had operations that resulted in a current year deficit of expenditures over revenues, resulting in a corresponding reduction of fund balances:

Debt Service	\$ (58,041)
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WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE J - MERGER

At July 1, 2013 the Monticello Independent School District merged with the Wayne County School District. The merge required the district to assume the assets (fixed assets), liabilities (bonded debt), the student body (approximately 800 plus students) and a large number of staff.

NOTE K - KSBIT ASSESSMENT

On January 14, 2013, officials for the Kentucky School Board Insurance Trust (KSBIT) announced the dissolution of the trust, and publicly announced for the first time that the trust, over a long period of time, had accumulated a deficit of 50 to 60 million dollars. It was confirmed in 2014 that any school district which was a policy holder in the workers compensation pool from 1990 to 2011, and any district which was a policy holder in the property and general liability pool from 1993 to 2011, are subject to assessment. The formula for assessment is based upon a school district's length of service in KSBIT, the premiums paid, and the number of claims made that were attributable to the school district. The Wayne County School District's portion of the assessment for the Workers Compensation Fund is \$530,452 while their portion of the Property & Liability Fund is \$88,499 for a total assessment for the district of \$618,951. A portion of the assessment was to be paid in August 2014 with the remainder payable in various amounts over the next six years. The portion that was paid in August 2014 is included in Accounts Payable in the district's June 30, 2014 financial statements.

NOTE L - CAPITAL ASSETS

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset life, are not.

Capital asset activity for the year ended June 30, 2014 is detailed on the following page.

WAYNE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

CAPITAL ASSET NOTE DISCLOSURE

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES				
Land and improvements	\$ 1,955,094	\$ 1,112,935	\$ -	\$ 3,068,029
Buildings and improvements	30,008,031	7,167,409	-	37,175,440
Technology equipment	1,211,837	21,655	132,806	1,100,686
Vehicles	3,243,092	81,385	79,488	3,244,989
General equipment	190,416	37,555	12,460	215,511
Totals at historical cost	36,608,470	8,420,939	224,754	44,804,655
Less accumulated depreciation for:				
Land and improvements	535,308	27,177	-	562,485
Buildings and improvements	9,452,471	877,216	-	10,329,687
Technology equipment	860,747	134,755	129,359	866,143
Vehicles	2,692,660	145,245	79,488	2,758,417
General equipment	120,607	15,383	12,460	123,530
Total accumulated depreciation	13,661,793	1,199,776	221,307	14,640,262
GOVERNMENTAL ACTIVITIES CAPITAL NET	\$ 22,946,677	\$ 7,221,163	\$ 3,447	\$ 30,164,393
PROPRIETARY ACTIVITIES				
Buildings and improvements	1,837,658	326,859	-	2,164,517
Technology equipment	-	-	-	-
General equipment	338,664	32,943	-	371,607
Totals at historical cost	2,176,322	359,802	-	2,536,124
Less accumulated depreciation for:				
Buildings and improvements	607,061	50,505	-	657,566
Technology equipment	239,263	18,691	-	257,954
General equipment	-	-	-	-
Total accumulated depreciation	846,324	69,196	-	915,520
PROPRIETARY ACTIVITIES CAPITAL NET	\$ 1,329,998	\$ 290,606	\$ -	\$ 1,620,604

DEPRECIATION EXPENSE CHARGES TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instructional	\$ 1,028,008
Student support services	1,937
Staff support services	2,500
District administration	6,465
School administration	-
Business support services	-
Plant operation/maintenance	9,309
Student transportation	150,052
Community services	1,505
Total	<u>\$ 1,199,776</u>

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
June 30, 2014

	Beginning Cash July 1, 2013	Receipts	Disbursements	Ending Cash June 30, 2014
Walker Elementary	\$ 12,094	\$ 46,487	\$ 32,348	\$ 26,233
Bell Elementary	31,389	68,714	38,804	61,299
Monticello Elementary	15,851	79,213	80,202	14,862
Wayne County Middle	41,565	97,251	84,967	53,849
	<u>\$ 100,899</u>	<u>\$ 291,665</u>	<u>\$ 236,321</u>	<u>\$ 156,243</u>

Included in Receipts and Disbursements
are Interfund transfers as follows:

Walker Elementary	\$ 11,816
Bell Elementary	\$ -
Monticello Elementary	\$ 16,629
Wayne County Middle	\$ 5

WAYNE COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS AND DISBURSEMENTS
WAYNE COUNTY HIGH SCHOOL ACTIVITY FUND
for the year ended June 30, 2014

Account	Beginning Cash 7/1/2013	Receipts	Expenses	Ending Cash 6/30/2014
American Tradition Club	\$ 27	\$ -	\$ 27	\$ -
ACA Academic Team	994	2,875	2,104	1,765
Annual	974	28,206	25,589	3,591
Archery	999	3,044	3,355	688
Art Fund	30	-	-	30
Band	-	28,838	23,573	5,265
Baseball	112	8,402	8,312	202
Boys Basketball	4,174	58,223	52,678	9,719
Beta Club	678	1,506	1,720	464
Boys Golf	-	2,140	2,117	23
Bowling	2,485	4,303	4,664	2,124
Boys Soccer	-	6,959	3,965	2,994
Class of 2014	499	2,846	3,035	310
Class of 2015	-	7,886	5,683	2,203
Candy Making Club	-	-	-	-
Boys Basketball Carpet	2,550	456	-	3,006
Community Based Instruction	143	508	528	123
Cheerleader Budget	305	10,491	10,117	679
Coke Fund	112	3,010	1,908	1,214
Computer Repair Class	140	190	174	156
Cross Country	499	20,970	18,706	2,763
Dance Team	174	2,940	3,095	19
Deca Store	725	1,312	1,722	315
Drama Club	50	262	312	-
Dr. Permits	57	786	690	153
English Department	-	1,050	1,006	44
Environmental Education	1,878	-	-	1,878
Faculty Coke Fund	138	1,029	914	253
FCA	1,541	4,615	5,143	1,013
FCCLA	294	4,080	3,714	660
FCA - ROTC Sp.	1,267	2,405	1,728	1,944
Future Ed of America	1,210	-	1,210	-
FFA	4,292	12,075	10,691	5,676
FFA Grant	377	-	-	377
Foreign Language Club	1	-	1	-
Flower Fund	30	-	30	-
Football	1,024	83,782	78,958	5,848
Freshman Academy	-	3,050	2,477	573
Girls Basketball	3,356	17,543	17,670	3,229
Gifted and Talented	7	590	397	200
Greenhouse	3,501	-	-	3,501
Guidance Counselor	-	511	-	511
Girls Softball	1,613	12,334	9,520	4,427
G/U Field Trips	321	-	321	-
History Club	65	-	-	65
Home Ec.	780	3,090	2,888	982

Homecoming Spirit Account	-	-	-	-
Junior Pro	3	-	3	-
Key Club	196	272	405	63
KUNA	-	2,325	2,325	-
Library	599	254	517	336
Lifetouch Commission	-	12,639	8,978	3,661
Math	252	2,030	2,027	255
Monticello Bank Classic Tourn.	-	5,126	4,429	697
Mini-Courses	9	-	9	-
National Honor Society	96	-	96	-
Office/CD	839	4,677	4,491	1,025
Pep Club	-	770	770	-
Project Graduation	-	4,250	3,574	676
Basketball Programs	-	3,490	3,490	-
ROTC FR	3,359	18,588	16,814	5,133
SADD - Unite	1,785	-	18	1,767
Scholarships	-	2,000	1,500	500
Science Olympiad	787	350	326	811
Shoot Away	-	-	-	-
Girls Soccer	6,455	7,907	7,968	6,394
SP Account	1,045	155	1,200	-
Band Spring Trip	289	-	-	289
Tennis	1,193	2,449	2,256	1,386
Track	394	1,448	1,355	487
Tri-M	-	283	259	24
TSA	454	1,244	1,200	498
Video Production	1,180	80	-	1,260
Volleyball	967	22,698	21,328	2,337
Wrestling	1,477	9,792	9,991	1,278
Youth Service Center	1,188	-	-	1,188
	<u>59,989</u>	<u>445,134</u>	<u>406,071</u>	<u>99,052</u>
Interfund transfers	<u>-</u>	<u>6,297</u>	<u>6,297</u>	<u>-</u>
Totals	<u>\$ 59,989</u>	<u>\$ 438,837</u>	<u>\$ 399,774</u>	<u>\$ 99,052</u>

WAYNE COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR GENERAL FUND
for the year ended June 30, 2014

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
Revenues			
Taxes	\$ 3,844,700	\$ 4,525,097	\$ 680,397
Earnings on investments	5,000	11,171	6,171
State sources	15,022,201	20,104,288	5,082,087
Federal sources	40,000	161,818	121,818
Other sources	3,218	22,156	18,938
Total revenues	18,915,119	24,824,530	5,909,411
Expenditures			
Instructional	10,820,468	14,000,841	(3,180,373)
Student support services	1,352,042	1,585,421	(233,379)
Staff support services	1,228,506	1,540,281	(311,775)
District administration	560,837	681,670	(120,833)
School administration	1,233,630	1,521,745	(288,115)
Business support services	254,216	344,347	(90,131)
Plant operation/maintenance	2,169,649	2,520,832	(351,183)
Student transportation	2,071,470	2,625,928	(554,458)
Day care operations	12,000	23,317	(11,317)
Community service operations	850	54,094	(53,244)
Adult education operations	-	-	-
Facility acquisition/construction	-	-	-
Debt service	152,299	152,299	-
Total expenditures	19,855,967	25,050,775	(5,194,808)
Excess (deficit) of revenues over expenditures	(940,848)	(226,245)	714,603
Other financing sources (uses):			
Gain / Loss on sale of assets		(3,447)	3,447
Gain on merger	-	1,011,841	(1,011,841)
Operating transfers in	271,173	261,859	9,314
Operating transfers out	(175,208)	(175,208)	-
Total other financing sources (uses)	95,965	1,095,045	999,080
Net change in fund balances	(844,883)	868,800	1,713,683
Fund balance July 1, 2013	844,883	611,623	(233,260)
Fund balance June 30, 2014	\$ -	\$ 1,480,423	\$ 1,480,423

WAYNE COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON - SPECIAL REVENUE
for the year ended June 30, 2014

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES			
Earnings on investment	\$ 4	\$ 4	\$ -
State sources	1,479,292	1,376,529	(102,763)
Federal sources	3,279,098	3,088,820	(190,278)
Other sources	93,893	137,110	43,217
Total revenues	4,852,287	4,602,463	(249,824)
EXPENDITURES			
Instructional	3,615,429	3,441,771	173,658
Student support services	69,144	54,062	15,082
Staff support services	849,381	774,539	74,842
District administration	-	68,271	(68,271)
School administration	241	240	1
Plant operation/maintenance	83,338	20,137	63,201
Food service operation	750	750	-
Day care operations	850	-	850
Community services	251,262	255,956	(4,694)
Adult education operations	24,954	29,799	(4,845)
Total expenditures	4,895,349	4,645,525	249,824
Excess (deficit) of revenues over expenditures	(43,062)	(43,062)	-
Other financing sources (uses):			
Operating transfers in	43,062	43,062	-
Operating transfers out	-	-	-
Total other financing sources (uses)	43,062	43,062	-
Net change in fund balances	-	-	-
Fund balance July 1, 2013	-	-	-
Fund balance June 30, 2014	\$ -	\$ -	\$ -

WAYNE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/ Pass - Through Grantor/ Program Title	CFDA Number	MUNIS Number	Current Year Expenses (All Projects)
U.S. Department of Education			
Passed through Kentucky Department of Education			
Special Education Cluster (Cluster 1)			
Adult Education Development Funds	84.002	3653	1,974
IDEA-B Basic	84.027 *	3373	39,029
IDEA-B Basic	84.027 *	3374	566,913
IDEA-B Basic-Monticello Independent	84.027	3373M	7,549
IDEA-B Basic Private School	84.027A	3372P	4,140
IDEA-B Basic Private School	84.027A	3373P	
IDEA-B Preschool	84.173	3433	3,424
IDEA-B Preschool	84.173	3434	49,968
Title I	84.010 *	3103	130,324
Title I	84.010 *	3104	1,185,237
Title I, Parent Involvement	84.010 *	3104M	8,939
Title I - Monticello Independent	84.010 *	3103B	128,451
Title I - Neglected and Delinquent	84.010	3,144	36,916
Migrant Education Basic	84.011	3113	17,706
Title I-C	84.048	3483A	1,213
Title I-C	84.048	3484	22,988
Title III-Limited English Proficiency	84.365	3454	14,125
Rural & Low Income School Program	84.358	3503	22,530
Rural & Low Income School Program	84.358	3504	14,282
Teacher Quality	84.367	4013	3,057
Teacher Quality	84.367	4014	246,499
Teacher Quality-Monticello Independent	84.367	4013M	17,172
U.S. Department of Defense			
ROTC	12.000	5044	66,470
U.S. Department of Agriculture			
Passed through Kentucky Department of Education			
Child Nutrition Cluster (Cluster 2)			
National School Breakfast Program	10.553 *	N/A	700,714
National School Lunch Program	10.555	N/A	1,257,410
Summer Feeding	10.559	N/A	15,429
Child & Adult Care Program	10.558	N/A	25,813
Non-monetary Food Donation	10.550	N/A	143,040
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 4,731,312

*Audited as a major program under the requirements
of Circular A-133

Note that CFDA numbers were not provided for all programs.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

The schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the accrual basis of accounting, which is the same basis used in the basic financial statements. The information in this schedule is presented in accordance with the requirements of

OMB Circular A-133.

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The value of federal awards expended in the form of non-cash assistance is \$143,040.

Clusters:

(1) Special Education Cluster

(2) Child Nutrition Cluster

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Wayne County School District
Monticello, Kentucky 42633

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, and Appendix III to the Independent Auditor's Contract – Electronic Submission*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Wayne County School District as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements and have issued my report thereon dated November 3, 2014.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*. There were additional matters communicated to the auditee in the management letter.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barry D. Daulton, CPA

Somerset, Kentucky
November 3, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Wayne County School District
Monticello, KY 42633

Compliance

I have audited the Wayne County School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contract and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, and Appendix III to the Independent Auditor's Contract- Electronic Submission*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In my opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Barry D. Daulton, CPA

Somerset, Kentucky
November 3, 2014

**WAYNE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2014**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Wayne County School District.
2. There are no significant deficiencies or material weaknesses disclosed in the audit of the financial statements.
3. There are no questioned costs reported in the audit of the financial statements.
4. No instances of noncompliance material to the financial statements of Wayne County School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit. There are no findings required to be reported under Section 510(a) of Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Wayne County School District expresses an unmodified opinion on all major federal programs.
6. Wayne County School District does not qualify as a low-risk auditee.
7. Major programs included: IDEA-B Basic (CFDA #84.027), Title I (CFDA #84.010), Title I Parent Involvement (CFDA #84.010), and USDA School Breakfast Program (CFDA #10.553)
8. The threshold for distinguishing Type A and Type B programs was \$300,000.

CURRENT YEAR FINDINGS RELATED TO FINANCIALS STATEMENTS

None

CURRENT FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None

**WAYNE COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2014**

There are no prior audit findings.

BARRY D. DAULTON, CPA, PSC
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MANAGEMENT LETTER

Superintendent and Members of the Board of Education
Wayne County School District
Monticello, Kentucky

In planning and performing my audit of the financial statements of Wayne County School District for the year ended June 30, 2014, I considered the District's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during my audit, I became aware of some matters that are opportunities to strengthen controls and operate in a more efficient manner.

PRIOR YEAR UNCORRECTED CONDITIONS

Condition 1

Statement of Condition: There were several instances where the Purchase Order date was after the vendor receipt date at the High School.

Criteria for Condition: A Purchase Order shall be completed and signed before a purchase is made.

Cause of the Condition: Some purchases are being made before getting approval and a Purchase Order is being completed.

Effect of the Condition: Activity fund monies are susceptible to misuse without a proper approval process in place.

Recommendation: No purchases should be made without prior approval.

Comment: Management will comply in the future

Condition 2

Statement of Condition: The Principal's Combining Budget was completed late at the High School and was not completed at all at Walker Elementary.

Criteria for Condition: A budget shall be completed by May 15th before the new school year begins so the school has an idea and direction of income and expenses for the upcoming year.

Cause of the Condition: The budget was not prepared in a timely manner or was not prepared at all.

Effect of the Condition: Without a budget in place, there is no guideline for the school on what monies they have coming in and going out.

Recommendation: Prepare and approve a budget by May 15th before the new school year begins.

Comment: Management will comply in the future.

Condition 3

Statement of Condition: Multiple Receipt Forms are being used for the most part at the High School but are not in any particular order and do not correspond to any receipt number or deposit that I could find.

Criteria for Condition: Multiple Receipt Forms shall be completed for all monies collected from students.

Cause of the Condition: Multiple Receipt Forms are not always being used properly.

Effect of the Condition: Without the proper use of Multiple Receipt Forms, it is difficult to prove whom paid money to the school and how much was collected.

Recommendation: Always complete Multiple Receipt Forms for monies collected from students. Take the Multiple Receipt Form and the money to the school treasurer. The school treasurer should confirm the amount collected on the Multiple Receipt Form, write and issue a receipt and deposit in the bank.

Comment: Management will comply in the future.

Condition 4

Statement of Condition: Fundraiser Approval forms are being used (although not always completed) and Fundraiser worksheets are not being prepared for all fundraisers at Bell Elementary and Monticello Elementary.

Criteria for Condition: Fundraiser Approval forms should be completed and signed before any fundraiser is held. Upon completion of the fundraiser, a Fundraiser worksheet shall be completed by the responsible party and turned in to the school treasurer.

Cause of the Condition: Failure to properly complete and turn in Fundraiser Approval forms and Fundraiser worksheets for all fundraisers held.

Effect of the Condition: Without knowledge and accountability for each fundraiser, fundraiser monies collected for the benefit of the school are more susceptible to theft and / or misuse.

Recommendation: The person in charge of the fundraiser shall complete the Fundraiser Approval form and get it signed and approved by the principal. After completion of the fundraiser, the responsible party shall complete the Fundraiser worksheet, which shows all monies receipted and expended for the fundraiser, to the school treasurer.

Comment: Management will comply in the future.

CURRENT YEAR CONDITIONS

Condition 1

Statement of Condition: There PTO did not submit a Budget to the school treasurer and did not submit any form of financial reporting (ie.. financial or bank statements) to the school treasurer at Monticello Elementary.

Criteria for Condition: All outside organizations affiliated with the school shall submit a Budget report to the school treasurer at the beginning of each school year and shall submit some form of financial reporting throughout the school year to the school treasurer.

Cause of the Condition: School treasurer's state that it is very difficult to get these outside organizations to submit the required documentation to them.

Effect of the Condition: Without knowledge and accountability for each outside organization, monies collected for the benefit of the school are more susceptible to theft and / or misuse.

Recommendation: The person in charge of the outside organization shall submit all required documentation in a timely manner to the school treasurer.

Comment: Management will try to obtain this information in the future.

I have reported on the District's internal control structure in my report dated November 3, 2014. This letter does not affect my report dated November 3, 2014 on the financial statements of Wayne County School District.

I will review the status of these comments during my next audit engagement. I have already discussed these comments and suggestions with District personnel, and I will be pleased to discuss them in further detail at your convenience, to perform an additional study of this matter, or assist the District with implementation of recommendations.

This report is intended solely for the information and use of the Board, management, Kentucky Department of Education, Kentucky State Committee for School District Audits, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Barry D. Daulton, CPA

Barry D. Daulton, CPA, PSC